

**SHELBY COUNTY  
MYRTUE MEMORIAL HOSPITAL  
D/B/A MYRTUE MEDICAL CENTER**

**INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2014 AND 2013**

# MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER  
Officials  
June 30, 2014

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Carmen Hosack, Chairperson	Harlan, Iowa	2014
Cheryl Chipman, Vice-Chairperson	Harlan, Iowa	2016
Allan Hjelle, Secretary/Treasurer	Elk Horn, Iowa	2016
Frank Powers	Defiance, Iowa	2014
Larry Miller	Harlan, Iowa	2018
Jim Zimmerman	Harlan, Iowa	2018
Terry Tometen	Harlan, Iowa	2018
<u>Chief Executive Officer:</u>		
Barry Jacobsen	Portsmouth, Iowa	
<u>Chief Financial Officer:</u>		
Kristy Hansen	Harlan, Iowa	
<u>Chief Nursing Executive:</u>		
Karen Buman	Harlan, Iowa	

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Myrtue Medical Center  
Harlan, Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Myrtue Medical Center as of June 30, 2014 and 2013 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Myrtue Medical Center

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Bases for Qualified Opinion**

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note M).

The financial statements do not include financial data for the Medical Center's legally separate component unit, Shelby County Medical Corporation. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Medical Center unless the Medical Center also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Medical Center has not issued such reporting entity financial statements (Note A).

### **Qualified Opinion**

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy and the effect of omitting the blended component unit, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Myrtue Medical Center as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Report on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3e and on page 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees  
Myrtue Medical Center

*Report on Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Myrtue Medical Center's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 25 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2014 on our consideration of Myrtue Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

*Gronewald, Bell, Kyhnu + Co. P.C.*  
Atlantic, Iowa  
October 6, 2014



1213 Garfield Ave  
Harlan, IA 51537  
712.755.5161

[www.myrtuemedical.org](http://www.myrtuemedical.org)

## MYRTUE MEDICAL CENTER Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Medical Center's) financial performance provides an overview of the Medical Center's financial activity for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Medical Center's financial statements, which begin on page 4.

### FINANCIAL HIGHLIGHTS

The 2014 fiscal year was the eighth full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2014 the Medical Center reported a increase in Operating Income of \$286,885 when compared to the previous year. In 2013, the Medical Center reported a decrease in Operating Loss of \$96,000 compared to the previous year.

Non-operating revenues of \$665,000 represented a \$95,000 increase from 2013.

### THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Medical Center finances begins on page 3a. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues and Expenses, and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes to them. You can think of the Medical Center's net position - the difference between assets and liabilities and deferred inflows of resources - as one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

1213 Chatburn Ave  
Suite 101  
Harlan, IA 51537  
712.755.4344

1213 Chatburn Ave  
Suite 102  
Harlan, IA 51537  
712.755.4342

### CLINIC LOCATIONS

1220 Chatburn Ave  
Harlan, IA 51537  
712.755.5130

301 East St  
Shelby, IA 51570  
712.544.2511

510 North Elm  
Avoca, IA 51521  
712.343.6455

4022 North Main  
Elk Horn, IA 51531  
712.764.4642

100 Industrial Drive  
Earling, IA 51530  
712.747.5700

1303 Garfield Ave  
Harlan, IA 51537  
712.755.5056

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE MEDICAL CENTER'S NET POSITION

The Medical Center's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 4.

Table 1: Assets, Liabilities, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 16,006,857	\$ 14,494,969	\$ 11,800,157
Capital assets, net	37,086,230	38,207,702	34,241,779
Other noncurrent assets	<u>3,363,768</u>	<u>2,018,737</u>	<u>2,921,243</u>
Total assets	<u>\$ 56,456,855</u>	<u>\$ 54,721,408</u>	<u>\$ 48,963,179</u>
Liabilities:			
Long-term debt outstanding	\$ 9,187,328	\$ 9,222,916	\$ 5,361,290
Other current and noncurrent liabilities	<u>4,073,787</u>	<u>4,287,358</u>	<u>3,622,648</u>
Total liabilities	<u>\$ 13,261,115</u>	<u>\$ 13,510,274</u>	<u>\$ 8,983,938</u>
Deferred Inflows of Resources	<u>\$ 2,219,333</u>	<u>\$ 1,402,615</u>	<u>\$ 1,246,079</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 27,833,172	\$ 27,928,325	\$ 28,242,762
Restricted expendable	1,145,510	1,061,169	534,479
Unrestricted	<u>11,997,725</u>	<u>10,819,025</u>	<u>9,955,921</u>
	<u>\$ 40,976,407</u>	<u>\$ 39,808,519</u>	<u>\$ 38,733,162</u>

Current assets increased by \$1,511,888 from the previous year. Operating cash increased by \$3,119,476 from the previous year. Net accounts receivable decreased by \$598,000 from the previous year as well. The increase in operating cash is a reflection of the increase in revenues, accounts receivable collections, and other program revenue.

Capital assets, net have decreased by \$1,121,472 in the past year due to increase in depreciation expense.

Other noncurrent assets have increased by \$1,345,000 due to increases in investments and debt service reserves.



MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

Long term debt has decreased by \$36,000 as a result of repayment of loan principal.

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET POSITION

In 2014, the Medical Center's net position increased by \$1,168,000 or 2.9 percent, as shown in Table 2. Net position increased by \$1,075,000 or 2.8 percent in 2013.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenue	\$ 33,501,576	\$ 31,507,184	\$ 30,755,140
Other operating revenues	<u>352,595</u>	<u>272,202</u>	<u>249,244</u>
Total operating revenues	33,854,171	31,779,386	31,004,384
Operating Expenses:			
Salaries and benefits	17,669,352	17,090,693	16,906,705
Professional fees	5,655,862	5,575,457	5,456,779
Other operating expenses	7,944,289	7,257,598	7,132,757
Depreciation	<u>2,347,992</u>	<u>1,905,847</u>	<u>1,654,536</u>
Total operating expenses	<u>33,617,495</u>	<u>31,829,595</u>	<u>31,150,777</u>
Operating income (loss)	236,676	( 50,209)	( 146,393)
Nonoperating Revenues and Expenses:			
County taxes	864,787	789,468	727,399
Investment income	78,414	131,254	73,970
Noncapital grants and contributions	34,380	50,480	35,699
Other nonoperating revenues and expenses, net	<u>( 312,837)</u>	<u>( 211,554)</u>	<u>( 113,424)</u>
Nonoperating revenues (expenses), net	<u>664,744</u>	<u>759,648</u>	<u>723,644</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	901,420	709,439	577,251
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>266,468</u>	<u>365,918</u>	<u>733,851</u>
Excess of Revenues over Expenses	1,167,888	1,075,357	1,311,102
Net Position Beginning of Year	<u>39,808,519</u>	<u>38,733,162</u>	<u>37,422,060</u>
Net Position End of Year	<u>\$ 40,976,407</u>	<u>\$ 39,808,519</u>	<u>\$ 38,733,162</u>

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

## OPERATING INCOME

The first component of the overall change in the Medical Center's net position is its operating income, generally the difference between net patient service revenues and the expenses incurred to perform those services. In 2014 the Medical Center had a income from operations of \$236,676, compared to a loss from operations of \$50,209 in 2013.

The primary components of the operating income are:

An increase in net patient service revenue of \$1,994,000, a 6.3 percent increase, in 2014 compared to an increase of \$752,000 or 2.4 percent in net revenue in 2013.

The increase in salary and benefit costs for the Medical Center's employees was \$579,000, a 3.4 percent increase, in 2014 compared to an increase of \$184,000 or 1.1 percent in 2013.

An increase in professional fee costs of \$80,000, a 1.4 percent increase, in 2014 compared to an increase of \$119,000 or 2.2 percent in 2013.

Other operating costs increased by \$687,000, a 9.5 percent increase, in 2014 compared to an increase of \$125,000 or 1.7 percent in 2013.

An increase in provision for depreciation of \$442,000, a 23.2 percent increase, in 2014 compared to an increase of \$251,000 or 15.2 percent in 2013.

Overall expenses increased 5.6 percent or \$1,788,000 in 2014 compared to an increase of 2.2 percent or \$679,000 in 2013.

The current shortage of professional caregivers and technologists continues to drive up some salary costs. The Medical Center must keep pace with the industry to compete for the highly sought after professionals. The advent of new technology and medicines requires additional capital and operating expense to provide current standard of care for our patients. The Medical Center works closely with its purchasing partner VHA Inc. to purchase medicines and supplies at the most economical rate possible for an organization of our size. The Medical Center provides health insurance to their employees through a self-funded plan. In 2014, claim experience remained unchanged from 2013 resulting in no increase in health insurance costs to the Medical Center.

The Medical Center routinely provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Medical Center when it was established in 1954. The level of services provided to these patients increased from \$257,781 in 2013 to \$470,130 in 2014. The Medical Center did see an increase in bad debts expense from \$1,100,000 in 2013 to \$1,258,000 in 2014.

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Medical Center and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. Variation in the revenue is a result of changing valuations and actual tax collection for the year. The Medical Center's investment income has decreased due to a significant decline in the rate of increase in market value of stocks.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Medical Center started a fundraising campaign to build a \$10 million wellness center. The Medical Center obtained pledges of approximately \$7.2 million dollars which includes \$131,000 in donations received during the 2014 fiscal year.

THE MEDICAL CENTER'S CASH FLOWS

The purpose of the statement of cash flows is to show the readers where cash was generated and how it was spent on a cash basis. The 2014 net cash provided by operating activities was \$4,420,000. In 2013, net cash provided by operating activities was \$1,559,000.

Net cash used in capital and related financing activities in 2014 was \$2,282,000, mainly due to the Medical Center's expansion and renovation project. In 2013, net cash used in capital and related financing activities was \$1,295,000.

Cash flow provided by investing activities was \$441,000 in 2014. In 2013, net cash provided by investing activities was \$11,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2014, the Medical Center had \$37.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. During 2014, the Medical Center spent \$2,204,000 on land, equipment and building improvements, a large portion of which was due to the Medical Center's expansion and renovation project. In 2013, \$5,236,000 was spent on land, equipment, and building improvements.

Debt:

In 2011, the Medical Center issued \$10,000,000 Capital Revenue Notes to fund Medical Center expansion and renovation project. As of June 30, 2014, \$9,187,328 is outstanding on that note.

The 2011 \$10,000,000 Capital Revenue Notes terms were amended in August, 2013 to take advantage of a lower interest rate.

BUDGETARY HIGHLIGHTS

The official county budget of the Medical Center for the year ended June 30, 2014 was prepared on a modified accrual basis. As indicated on page 24, actual expenditures were 7.4% lower than budgeted due to an unexpected decrease in volume of inpatient services provided and lower than expected increase in outpatient services.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis -- Continued

OTHER ECONOMIC FACTORS

The Medical Center is a rural hospital in west central Iowa. The Medicare program represents about 55% of the revenues the Medical Center receives, and represents the greatest risk to our revenues. Payment changes and revamping of the Program by Congress can have a much larger effect on the Medical Center due to its high percentage of Medicare patients.

The Medical Center has been designated as a Critical Access Hospital. This designation has resulted in Medicare and Medicaid paying 101% of defined costs for services provided to eligible patients, thereby increasing reimbursement. Effective April 1, 2013 Medicare reimbursement was reduced by 2% under the federal sequestration process.

The Medical Center's rural health clinics in Harlan, Avoca, Shelby, and Elk Horn, Iowa also receive cost-based reimbursement from Medicare and Medicaid, which has substantially increased reimbursement to the clinics.

CONTACTING THE MEDICAL CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

\* \* \*

MYRTUE MEDICAL CENTER  
Statements of Net Position  
June 30,

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 3,676,616	\$ 557,140
Certificates of deposit	2,202,315	2,610,373
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,576,000 in 2014, \$3,766,000 in 2013)	7,333,876	7,931,756
Other receivables	341,138	186,710
Related organizations receivables	66,140	29,571
Inventory	276,267	193,838
Prepaid expense	353,996	294,610
Succeeding year property tax receivable	884,000	845,900
Internally designated assets	<u>872,509</u>	<u>1,845,071</u>
Total current assets	16,006,857	14,494,969
Designated and Restricted Assets:		
Internally designated assets	2,325,393	1,951,252
Restricted assets	<u>1,424,898</u>	<u>1,421,884</u>
	3,750,291	3,373,136
Less amounts required to meet current liabilities	<u>872,509</u>	<u>1,845,071</u>
	2,877,782	1,528,065
Capital Assets:		
Depreciable capital assets, net	35,100,223	34,562,603
Non-depreciable capital assets	<u>1,986,007</u>	<u>3,645,099</u>
	37,086,230	38,207,702
Other Assets:		
Notes receivable	17,321	35,954
Other	<u>468,665</u>	<u>454,718</u>
	485,986	490,672
Total assets	<u>\$ 56,456,855</u>	<u>\$ 54,721,408</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 714,727	\$ 672,930
Accounts payable	1,341,732	2,261,413
Accrued employee compensation	1,279,837	1,193,744
Payroll taxes withheld and accrued	290,166	285,764
Estimated third-party payor settlements	1,070,000	426,000
Other current liabilities	<u>92,052</u>	<u>120,437</u>
Total current liabilities	4,788,514	4,960,288
Long-Term Debt, less current maturities	<u>8,472,601</u>	<u>8,549,986</u>
Total liabilities	13,261,115	13,510,274
Deferred Inflows of Resources:		
Deferred revenue	2,219,333	1,402,615
Net Position:		
Invested in capital assets, net of related debt	27,833,172	27,928,325
Restricted expendable	1,145,510	1,061,169
Unrestricted	<u>11,997,725</u>	<u>10,819,025</u>
Total net position	<u>40,976,407</u>	<u>39,808,519</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 56,456,855</u>	 <u>\$ 54,721,408</u>

MYRTUE MEDICAL CENTER  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Revenue:		
Net patient service revenue	\$ 33,501,576	\$ 31,507,184
Other revenue	<u>352,595</u>	<u>272,202</u>
Total revenue	33,854,171	31,779,386
Expenses:		
Salaries and wages	13,731,695	13,284,354
Employee benefits	3,937,657	3,806,339
Professional fees	5,655,862	5,575,457
Supplies and other expenses	7,944,289	7,257,598
Provision for depreciation	<u>2,347,992</u>	<u>1,905,847</u>
Total expenses	<u>33,617,495</u>	<u>31,829,595</u>
Operating Income (Loss)	236,676	( 50,209)
Non-Operating Revenues (Expenses):		
Investment income	78,414	131,254
Noncapital grants and contributions	34,380	50,480
County taxes	864,787	759,468
Behavioral health county revenue	22,500	30,000
Other restricted donations, net	11,610	22,125
Interest expense	( 307,350)	( 150,253)
Contracted ambulance service	( 75,334)	( 75,328)
Gain (loss) on disposal of assets	11,247	( 33,908)
Clinic buildings revenue, net	<u>24,490</u>	<u>25,810</u>
Non-operating revenues, net	<u>664,744</u>	<u>759,648</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	901,420	709,439
Capital Grants and Contributions:		
Wellness center	131,468	205,918
Other	<u>135,000</u>	<u>160,000</u>
Increase in Net Position	1,167,888	1,075,357
Net Position Beginning of Year	<u>39,808,519</u>	<u>38,733,162</u>
Net Position End of Year	<u>\$ 40,976,407</u>	<u>\$ 39,808,519</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER  
Statements of Cash Flows  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 35,367,646	\$ 30,738,714
Cash paid to suppliers	( 17,654,422)	( 16,252,783)
Cash paid to employees	( 13,645,602)	( 13,199,621)
Other revenue	<u>352,595</u>	<u>272,202</u>
Net cash provided by operating activities	4,420,217	1,558,512
Cash flows from non-capital financing activities:		
County tax revenue	887,287	789,468
Contracted ambulance service	( 75,334)	( 75,328)
Noncapital grants and contributions	<u>47,610</u>	<u>75,480</u>
Net cash provided by non-capital financing activities	859,563	789,620
Cash flows from capital and related financing activities:		
Capital expenditures	( 2,203,956)	( 5,235,626)
Proceeds from disposal of assets	11,247	5,848
Proceeds from issuance of debt	654,246	6,081,364
Payments on long-term debt	( 689,834)	( 2,219,738)
Capital grants and contributions	266,468	365,918
Interest paid	<u>( 320,645)</u>	<u>( 293,289)</u>
Net cash used in capital and related financing activities	( 2,282,474)	( 1,295,523)
Cash flows from investing activities:		
Investment income	31,566	39,766
Change in investments	408,058	( 94,622)
Change in designated and restricted assets	( 13,397)	71,047
Clinic buildings revenue, net	24,490	25,810
Change in notes receivable	3,930	( 5,603)
Change in other assets	<u>( 13,947)</u>	<u>( 25,120)</u>
Net cash provided by investing activities	440,700	11,278
Net increase in cash and cash equivalents	3,438,006	1,063,887
Cash and cash equivalents, beginning of year	<u>2,618,736</u>	<u>1,554,849</u>
Cash and cash equivalents, end of year	<u>\$ 6,056,742</u>	<u>\$ 2,618,736</u>

(continued next page)



MYRTUE MEDICAL CENTER  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 3,676,616	\$ 557,140
Cash in designated and restricted assets	<u>2,380,126</u>	<u>2,061,596</u>
Total cash and cash equivalents	<u>\$ 6,056,742</u>	<u>\$ 2,618,736</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 236,676	\$( 50,209)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Provision for depreciation	2,347,992	1,905,847
Amortization	14,703	7,732
Change in assets and liabilities		
Accounts receivable	443,452	( 677,306)
Related organization receivable	( 36,569)	188,794
Inventory	( 82,429)	( 29,974)
Prepaid expense	( 59,386)	28,946
Accounts payable, trade	71,050	248,905
Accrued employee compensation	86,093	84,733
Estimated third-party payor settlements	644,000	( 144,000)
Payroll taxes withheld and accrued	4,402	( 1,068)
Other current liabilities	( 28,385)	( 56,724)
Deferred revenue	<u>778,618</u>	<u>52,836</u>
Total adjustments	<u>4,183,541</u>	<u>1,608,721</u>
Net cash provided by operating activities	<u>\$ 4,420,217</u>	<u>\$ 1,558,512</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Myrtue Medical Center (the Medical Center) is a county hospital with related healthcare ancillary, outpatient, and physician clinic services. The Medical Center is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Medical Center has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Medical Center's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Medical Center.

The Medical Center has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Medical Center's physician clinics, and virtually all of its transactions are with the Medical Center. It has limited net position and activity other than between SCMC and the Medical Center. Therefore, combining the component unit would not have a material effect on these financial statements (See Note L).

The following summary shows the net increase or (decrease) blending the component would have on the assets, liabilities, net position, revenues, and expenses of Myrtue Medical Center as of and for the year ended June 30:

	<u>2014</u>	<u>2013</u>
Assets would increase by	\$ <u>424,904</u>	\$ <u>310,749</u>
Liabilities would increase by	\$ <u>167,900</u>	\$ <u>168,459</u>
Net Position would increase by	\$ <u>257,004</u>	\$ <u>142,290</u>
Revenues would decrease by	\$( <u>51,542</u> )	\$( <u>49,411</u> )
Expenses would decrease by	\$( <u>166,256</u> )	\$( <u>126,870</u> )

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

2. Enterprise Fund Accounting

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Medical Center's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Medical Center capitalized \$13,295 of interest cost in 2014 (\$142,236 in 2013).

9. Compensated Absences

Medical Center employees earn paid time off (PTO) hours at varying rates depending on years of service. PTO time accumulates to a maximum of 360 hours. Any excess over 360 hours is lost. Employees may elect to receive salary in lieu of PTO for hours accumulated in excess of 160, at the end of each quarter. The computed amount of PTO benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Medical Center on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Medical Center has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Medical Center Board of Trustees based on the facts regarding each specific situation.

16. Net Position

Net position of the Medical Center is reported in the following three categories. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Medical Center. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service (net of discounts for uninsured patients where appropriate) depending on the timing of the charity determination.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

18. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 "*Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27.*" This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Hospital's proportionate share of the Iowa Public Employees Retirement System pension plan.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediaries. The Medical Center's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2012. The Medicaid cost reports have been audited through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE C - ENDOWMENTS AND RESTRICTED NET POSITION

Expendable restricted assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Healthcare education loans	\$ 127,520	\$ 115,910
Wellness center scholarships	16,870	16,870
Family planning initiative	279,388	360,715
Debt service	<u>1,001,120</u>	<u>928,389</u>
	<u>\$ 1,424,898</u>	<u>\$ 1,421,884</u>

The Medical Center has no nonexpendable restricted assets or endowments at June 30, 2014 or 2013.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2014</u>	<u>2013</u>
Purchase of property and equipment	\$ 266,468	\$ 365,918
Education loans forgiven	1,620	2,875
Family planning initiative	<u>81,327</u>	<u>24,423</u>
	<u>\$ 349,415</u>	<u>\$ 393,216</u>

NOTE D - DESIGNATED ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$11,997,725 (\$10,819,025 in 2013) of unrestricted net position, \$2,325,393 (\$1,951,252 in 2013) has been designated by the Medical Center's Board of Trustees for purposes identified in the following schedule.

	<u>2014</u>	<u>2013</u>
Capital acquisitions and related debt	\$ 990,382	\$ 810,932
Employee health insurance	<u>1,335,011</u>	<u>1,140,320</u>
	<u>\$ 2,325,393</u>	<u>\$ 1,951,252</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE E - DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Medical Center is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Medical Center is allowed to retain any donated equity securities and maintain them as a part of their invested funds. At June 30, 2014 the Medical Center held \$404,992 (\$358,144 in 2013) of capital stock, none of which is covered by any form of insurance against loss.

The composition of designated and restricted assets is as follows:

	<u>2014</u>	<u>2013</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 834,838	\$ 640,147
Certificates of deposit	850,000	850,000
Equity securities	404,992	358,144
Interest receivable	1,450	1,400
Due from restricted fund	<u>234,113</u>	<u>101,561</u>
	<u>\$ 2,325,393</u>	<u>\$ 1,951,252</u>
Restricted Assets:		
Cash and cash equivalents	\$ 1,545,288	\$ 1,421,449
Education loans	113,723	101,996
Due to board designated fund	<u>( 234,113)</u>	<u>( 101,561)</u>
	<u>\$ 1,424,898</u>	<u>\$ 1,421,884</u>

The Medical Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.



MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS

The Medical Center's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Medical Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2014 and 2013. The Medical Center's investments included equity securities valued at \$404,992 (\$358,144 in 2013) at year end.

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Receivable from:		
Patients	\$ 3,444,669	\$ 4,332,503
Medicare	2,930,767	3,308,017
Medicaid	801,482	860,125
Wellmark	1,557,941	1,909,283
Other commercial insurance carriers	1,056,758	1,168,041
Others	<u>118,259</u>	<u>119,787</u>
	9,909,876	11,697,756
Less allowances for doubtful accounts and contractual adjustments	<u>2,576,000</u>	<u>3,766,000</u>
	<u>\$ 7,333,876</u>	<u>\$ 7,931,756</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS

Medical Center capital assets, additions, disposals and balances for the years ended June 30, 2014 and 2013 were as follows:

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 516,515	\$ --	\$ --	\$ 516,515
Buildings	40,394,608	2,272,059	--	42,666,667
Fixed Equipment	4,302,453	--	--	4,302,453
Major Movable Equipment	<u>11,081,206</u>	<u>613,553</u>	<u>13,500</u>	<u>11,681,259</u>
	56,294,782	2,885,612	13,500	59,166,894
<u>Depreciation</u>				
Land Improvements	417,434	14,768	--	432,202
Buildings	9,942,690	1,444,204	--	11,386,894
Fixed Equipment	3,384,720	143,662	--	3,528,382
Major Movable Equipment	<u>7,987,335</u>	<u>745,358</u>	<u>13,500</u>	<u>8,719,193</u>
Total Depreciation	<u>21,732,179</u>	<u>2,347,992</u>	<u>13,500</u>	<u>24,066,671</u>
Depreciable Capital Assets, Net	<u>\$ 34,562,603</u>	<u>\$ 537,620</u>	<u>\$ --</u>	<u>\$ 35,100,223</u>
Non-depreciable Capital Assets:				
Land	\$ 1,819,048	\$ --	\$ --	\$ 1,819,048
Construction in progress	<u>1,826,051</u>	<u>594,642</u>	<u>2,253,734</u>	<u>166,959</u>
	<u>\$ 3,645,099</u>	<u>\$ 594,642</u>	<u>\$ 2,253,734</u>	<u>\$ 1,986,007</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 491,897	\$ 24,618	\$ --	\$ 516,515
Buildings	26,449,103	13,945,505	--	40,394,608
Fixed Equipment	3,701,325	618,044	16,916	4,302,453
Major Movable Equipment	<u>9,740,219</u>	<u>1,426,983</u>	<u>85,996</u>	<u>11,081,206</u>
	40,382,544	16,015,150	102,912	56,294,782
<u>Depreciation</u>				
Land Improvements	404,609	12,825	--	417,434
Buildings	8,829,862	1,112,828	--	9,942,690
Fixed Equipment	3,283,163	110,156	8,599	3,384,720
Major Movable Equipment	<u>7,371,854</u>	<u>670,038</u>	<u>54,557</u>	<u>7,987,335</u>
Total Depreciation	<u>19,889,488</u>	<u>1,905,847</u>	<u>63,156</u>	<u>21,732,179</u>
Depreciable Capital Assets, Net	<u>\$ 20,493,056</u>	<u>\$ 14,109,303</u>	<u>\$ 39,756</u>	<u>\$ 34,562,603</u>
Non-depreciable Capital Assets:				
Land	\$ 1,442,348	\$ 376,700	\$ --	\$ 1,819,048
Construction in progress	<u>12,306,375</u>	<u>5,114,299</u>	<u>15,594,623</u>	<u>1,826,051</u>
	<u>\$ 13,748,723</u>	<u>\$ 5,490,999</u>	<u>\$ 15,594,623</u>	<u>\$ 3,645,099</u>

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Medical Center's non-current liabilities for the years ended June 30, 2014 and 2013 follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-Term Debt:					
2011 Capital loan notes	<u>\$ 9,222,916</u>	<u>\$ 654,246</u>	<u>\$ 689,834</u>	<u>\$ 9,187,328</u>	<u>\$ 714,727</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE I - NON-CURRENT LIABILITIES - Continued

	<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>2013</u>	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
2010 Capital loan notes	\$ 2,096,900	\$ --	\$2,096,900	\$ --	\$ --
2011 Capital loan notes	<u>3,264,390</u>	<u>6,081,364</u>	<u>122,838</u>	<u>9,222,916</u>	<u>672,930</u>
Total Non-Current Liabilities	<u>\$ 5,361,290</u>	<u>\$ 6,081,364</u>	<u>\$2,219,738</u>	<u>\$ 9,222,916</u>	<u>\$ 672,930</u>

2010 Capital Loan Notes

The Medical Center issued \$2,500,000 of Hospital Revenue Capital Loan Notes, Series 2010 to pay a portion of the costs of constructing and equipping a new Wellness Center. The notes were to mature in monthly installments including principal of \$13,900 and monthly interest on the remaining balance, beginning in March, 2010, through February, 2024. The interest rate was 2.85%. The Medical Center pledged its future revenues (net of expenses) to repay the notes.

Under terms of the loan agreement, the Medical Center was required to make timely note payments. The loan agreement also placed limits on the incurrence of additional borrowings and required that the Medical Center satisfy certain measures of financial performance as long as the notes were outstanding. The notes were called for redemption by the Medical Center as a result of requirements in the 2011 Loan Note documents. The notes were paid off in May, 2013.

2011 Capital Loan Notes

In December, 2011, the Medical Center issued \$10,000,000 of Hospital Revenue Capital Loan Notes. Under terms of the Notes, monthly interest only payments were due through May, 2013. Combined principal and interest payments will be made beginning in June, 2013 through May 1, 2025. The original interest rate on the outstanding balance of the Notes was 3.85%. As of August 1, 2014 the interest rate was revised to 3.35% with an adjustment on June 1, 2019 based on the seven year Federal Home Loan Bank Des Moines fixed rate advance rate, plus 1.375%. However, the rate will not exceed 6.35% or be below 3.35%.

The Notes are payable only from the revenues of the Medical Center, and are secured by a first lien on its net revenues. The Notes are not general obligations of the county and shall not be paid in any manner by taxation.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE I - NON-CURRENT LIABILITIES - Continued

Annual Debt Service

The annual debt service on the Notes is expected to require less than 26% of the cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$1,010,500 and \$3,837,900, respectively.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 714,727	\$ 296,884	\$ 1,011,611
2016	739,966	272,539	1,012,505
2017	765,139	247,366	1,012,505
2018	791,169	221,336	1,012,505
2019	818,084	194,422	1,012,506
2020 - 2024	4,527,301	535,227	5,062,528
2025	<u>830,942</u>	<u>12,812</u>	<u>843,754</u>
	<u>\$ 9,187,328</u>	<u>\$ 1,780,586</u>	<u>\$ 10,967,914</u>

NOTE J - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments, Iowa Family Planning Initiative (IFPI) revenue, construction settlement and deferred succeeding year property tax. The EHR revenue will be recognized over five years, as the related equipment is depreciated. The IFPI revenue is to be used for future unreimbursed costs incurred as part of the program. The construction settlement is to be used to correct a condensation issue at the Wellness Center. The deferred succeeding year property tax represents taxes certified by the County Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year.

	<u>2014</u>	<u>2013</u>
Electronic health records incentive	\$ 526,000	\$ 196,000
Iowa Family Planning Initiative Grant proceeds	10,585	10,585
Iowa Family Planning Initiative revenues	268,803	350,130
Construction settlement	529,945	--
Deferred succeeding year property tax	<u>884,000</u>	<u>845,900</u>
	<u>\$ 2,219,333</u>	<u>\$ 1,402,615</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE K - PENSION AND RETIREMENT BENEFITS

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and the Medical Center is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$1,183,000, \$1,106,600, and \$999,300, respectively, equal to the required contributions for each year.

NOTE L - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Medical Center owned Rural Health Clinics. The Medical Center purchases the physician services at a set cost per Relative Value Unit (RVU). SCMC is paid at an interim monthly rate, with a net settlement determined at year end, based on the total RVUs provided. The Medical Center provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Medical Center and SCMC:

	<u>2014</u>	<u>2013</u>
Purchase of services from SCMC	<u>\$ 2,719,676</u>	<u>\$ 2,664,817</u>
Sale of services to SCMC	<u>\$ 51,542</u>	<u>\$ 49,411</u>
Amount receivable from SCMC at year end	<u>\$ 70,938</u>	<u>\$ 28,963</u>

Health Partners of Southwest Iowa

The Medical Center has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE L - RELATED ORGANIZATIONS - Continued

Below is a summary of the Medical Center's transactions with HPSI and year end balances involving the 28E organization:

	<u>2014</u>	<u>2013</u>
Services purchased from HPSI	\$ <u>75,255</u>	\$ <u>68,472</u>
Services sold to HPSI	\$ <u>79,624</u>	\$ <u>69,025</u>
Amount due from (to) HPSI	\$( <u>4,798</u> )	\$ <u>608</u>
Member share of net position	\$ <u>465,322</u>	\$ <u>452,158</u>

The member share of net position is included in other assets and the amounts due from (to) HPSI are included in other receivables and accounts payable on the statement of net position. The Medical Center has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Medical Center and the office of the State Auditor.

NOTE M - OTHER POST EMPLOYMENT BENEFITS (OPEB)

**Plan Description:** As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 214 active employees and 3 retirees covered by the full health insurance plan, with 0 other retirees on the dental plan only, and 0 other retirees on the vision plan only.

**Funding Policy:** The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

**Net OPEB Obligation:** Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE N - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Medical Center has committed to participate in the support of the Shelby County Ambulance Commission along with the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Medical Center has agreed to provide financial support totaling \$75,334 in 2014-15.

Self Funded Health/Disability Insurance

The Medical Center has established an employee health and disability insurance fund. Under the self-insured plan, the Medical Center pays health claims from this fund up to maximum limits and carries stop loss insurance for health claims in excess of the limits. In addition, the Medical Center pays sixty percent of a disabled employee's salary for up to six months, and carries long-term disability insurance for claims longer than a six month period. At June 30, 2014 and 2013 the Medical Center had accumulated funds in excess of actual claims paid of approximately \$1,335,000 and \$1,140,000, respectively. These funds, shown under designated and restricted assets, are designated by the Board to pay claims as they are filed in the future. An allowance for unpaid claims at June 30, 2014 of \$92,052 (\$115,680 in 2013) is included in current liabilities.

Notes Receivable

The Medical Center has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Medical Center receives promissory notes and the commitment of the students to pursue their medical occupation in the Harlan area for a specified period of time upon graduation from the programs. The promissory notes contain clauses indicating they will be forgiven on a pro rata basis as the commitments are fulfilled. If the students fail to fulfill the commitments, the notes are to be repaid, including interest.

Risk Management

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Myrtue Medical Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during any of the past three fiscal years.

Construction Project

At June 30, 2014, the Hospital had expended approximately \$167,000 on several minor ongoing projects, with an estimated \$50,000 remaining to complete them. Funding for the remaining costs will be provided through internally generated funds.

Subsequent Events

The Medical Center has evaluated all subsequent events through October 6, 2014, the date the financial statements were available to be issued.



MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2014 and 2013

NOTE O - RECLASSIFICATION OF BALANCES

Certain titles and items on the statement of net position as of June 30, 2013 have been reclassified to be comparable to the amounts and titles reported at June 30, 2014. The changes had no effect on the total assets or the total of the combined liabilities, deferred inflows of resources, and net position of the Hospital.

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER  
Budgetary Comparison Schedule  
Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, ambulance service, gain (loss) on disposal of assets, and net position differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 887,287	\$ --	\$ 887,287
Other revenues	33,468,054	430,042	33,898,096
Transfers in (out)	<u>349,415</u>	<u>( 349,415)</u>	<u>--</u>
	34,704,756	80,627	34,785,383
Expenses	<u>33,617,495</u>	<u>--</u>	<u>33,617,495</u>
Net	1,087,261	80,627	1,167,888
Balance beginning of year	<u>38,747,350</u>	<u>1,061,169</u>	<u>39,808,519</u>
Balance end of year	<u>\$ 39,834,611</u>	<u>\$ 1,141,796</u>	<u>\$ 40,976,407</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 887,287	\$ --	\$ 887,287	\$ 845,872
Other revenues	<u>33,898,096</u>	<u>371,437</u>	<u>34,269,533</u>	<u>36,677,897</u>
	34,785,383	371,437	35,156,820	37,523,769
Expenses	<u>33,617,495</u>	<u>382,684</u>	<u>34,000,179</u>	<u>36,715,334</u>
Net	1,167,888	( 11,247)	1,156,641	808,435
Balance beginning of year	<u>39,808,519</u>	<u>( 562,588)</u>	<u>39,245,931</u>	<u>39,245,931</u>
Balance end of year	<u>\$ 40,976,407</u>	<u>\$( 573,835)</u>	<u>\$ 40,402,572</u>	<u>\$ 40,054,366</u>

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER  
Patient Receivables  
June 30,

Analysis of Aging:

Days Since Discharge	2014		2013	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 3,133,278	31.6%	\$ 4,015,463	34.3%
31 - 90	1,966,507	19.8	2,594,995	22.2
91 - 180	1,315,576	13.3	1,480,599	12.7
181 - 365	1,365,684	13.8	1,349,007	11.5
Over 365	2,128,831	21.5	2,257,692	19.3
	<u>9,909,876</u>	<u>100.0%</u>	<u>11,697,756</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	990,000		1,555,000	
Allowance for contractual adjustments	<u>1,586,000</u>		<u>2,211,000</u>	
	<u>\$ 7,333,876</u>		<u>\$ 7,931,756</u>	

Allowance for Doubtful Accounts:

	Year Ended June 30,	
	2014	2013
Balance, beginning	\$1,555,000	\$1,618,000
Provision for bad debts	1,257,854	1,098,856
Recoveries of accounts previously written off	<u>240,562</u>	<u>262,416</u>
	3,053,416	2,979,272
Accounts written off	<u>2,063,416</u>	<u>1,424,272</u>
Balance, ending	<u>\$ 990,000</u>	<u>\$1,555,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER  
Patient Service Revenue  
Year ended June 30,

	2014	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,642,426	\$ 598,868
Nursery	137,449	--
	<u>1,779,875</u>	<u>598,868</u>
<u>Other Nursing Services</u>		
Observation beds	27,136	--
Clinic room	--	--
Operating and recovery room	544,133	13,085
Delivery and labor room	294,485	--
Emergency service	47,487	--
Medical supplies	210,787	24,548
Intravenous therapy	85,539	26,991
	<u>1,209,567</u>	<u>64,624</u>
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	679,495	216,131
Electrocardiology	35,370	4,860
Cardiac rehabilitation	--	--
Radiology	114,485	36,975
CT scanning	310,995	44,240
Nuclear imaging	7,896	4,124
Ultrasound	174,337	21,434
MRI	70,259	12,472
Pharmacy	934,977	647,999
Chemotherapy	8,789	8,436
Anesthesia	177,127	3,040
Respiratory therapy	384,639	199,964
Sleep studies	--	--
Physical therapy	183,683	428,963
Occupational therapy	77,872	254,967
Speech therapy	32,971	40,352
Home health	--	--
Hospice	--	--
Family planning	--	--
Public health	--	--
Wellness center	--	--
Occupational health outreach	--	--
Other	--	--
	<u>3,192,895</u>	<u>1,923,957</u>

(continued next page)

Outpatient	2014		2013	
	Physician Services	Total	Total	
\$ 529,532	\$ --	\$ 2,770,826	\$ 2,639,260	
4,028	--	141,477	116,069	
533,560	--	2,912,303	2,755,329	
446,263	--	473,399	566,175	
359,558	--	359,558	499,328	
3,882,985	--	4,440,203	3,077,042	
67,838	--	362,323	325,545	
1,788,865	--	1,836,352	1,784,724	
599,305	51,393	886,033	906,008	
1,054	--	113,584	94,369	
7,145,868	51,393	8,471,452	7,253,191	
--	976,203	976,203	897,810	
3,253,385	3,712,831	7,861,842	7,286,587	
419,704	--	459,934	441,037	
180,072	--	180,072	197,426	
1,519,399	644,009	2,314,868	2,218,746	
3,197,415	--	3,552,650	3,596,430	
170,456	--	182,476	152,823	
1,527,403	--	1,723,174	1,532,349	
1,220,644	--	1,303,375	1,078,928	
2,174,805	609,446	4,367,227	2,959,031	
1,702,489	--	1,719,714	1,783,588	
682,647	--	862,814	729,501	
183,007	--	767,610	1,050,302	
420,140	--	420,140	--	
2,316,185	--	2,928,831	2,464,430	
328,785	--	661,624	624,193	
145,256	--	218,579	207,129	
935,129	--	935,129	1,105,749	
694,367	--	694,367	1,063,754	
326,376	--	326,376	340,576	
415,182	--	415,182	369,763	
640,144	--	640,144	655,318	
220,657	--	220,657	218,194	
1,208	--	1,208	806	
22,674,855	5,942,489	33,734,196	30,974,470	

MYRTUE MEDICAL CENTER  
Patient Service Revenue - Continued  
Year ended June 30,

	<u>2014</u>	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Behavioral Health</u>	\$ 1,574	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
Earling	--	--
	<u>--</u>	<u>--</u>
Total All Services	<u>\$ 6,183,911</u>	<u>\$ 2,587,449</u>

See Independent Auditor's Report.



2014			2013
Outpatient	Physician Services	Total	Total
\$ 1,082,672	\$ --	\$ 1,084,246	\$ 1,099,435
--	5,135,778	5,135,778	6,116,746
--	359,722	359,722	330,942
--	262,884	262,884	244,446
--	297,358	297,358	266,345
--	229,838	229,838	183,254
--	6,285,580	6,285,580	7,141,733
<u>\$ 31,436,955</u>	<u>\$ 12,279,462</u>	<u>\$ 52,487,777</u>	<u>\$ 49,224,158</u>

MYRTUE MEDICAL CENTER  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2014</u>	<u>2013</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 52,487,777	\$ 49,224,158
Contractual adjustment	( 17,133,977)	( 15,994,404)
Provision for bad debts	( 1,257,854)	( 1,098,856)
Charity Care	( 470,130)	( 257,781)
Administrative adjustments	<u>( 124,240)</u>	<u>( 365,933)</u>
	<u>\$ 33,501,576</u>	<u>\$ 31,507,184</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 112,599	\$ 109,596
Other dietary services	23,666	20,542
Rental income	103,426	54,208
Other	<u>112,904</u>	<u>87,856</u>
	<u>\$ 352,595</u>	<u>\$ 272,202</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER  
Schedule of Expenses  
Year ended June 30,

	2014		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 2,599,540	\$ 759,535	\$ 244,182
<u>Other Nursing Services</u>			
Clinic room	407,462	115,929	25,676
Operating and recovery room	445,260	99,011	180,278
Delivery and labor room	239,080	49,658	30,744
Emergency service	283,722	100,401	32,752
Medical supplies	84,681	25,459	400,765
Intravenous therapy	--	--	75,759
Total other nursing services	1,460,205	390,458	745,974
<u>Other Professional Services</u>			
Emergency room physicians	66,433	--	--
Laboratory	671,182	193,643	677,874
Electrocardiology	14,579	2,476	10,410
Cardiac rehabilitation	39,652	15,060	6,550
Radiology	509,040	148,148	392,561
CT scanning	--	--	109,410
Nuclear imaging	--	--	32,583
MRI	--	--	144,027
Pharmacy	301,629	93,650	1,030,413
Chemotherapy	37,537	6,371	623,505
Anesthesia	358,879	74,630	30,390
Respiratory therapy	181,685	50,027	52,388
Sleep studies	--	--	121,544
Physical therapy	--	--	66,205
Occupational therapy	--	--	807
Speech therapy	--	--	--
Home health	457,912	119,725	51,441
Public health	265,541	71,890	112,859
Hospice	323,187	89,562	87,967
Family planning	156,788	36,085	68,547
Occupational health outreach	78,658	24,286	17,260
Wellness center	408,929	138,395	261,695
Medical records	333,405	107,786	171,324
Total other professional services	4,205,036	1,171,734	4,069,760

(continued next page)

2014			2013
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ 24,163	\$ 117,615	\$ 3,745,035	\$ 3,591,594
51,567	19,613	620,247	632,987
506,095	77,652	1,308,296	819,881
--	18,032	337,514	265,465
--	14,281	431,156	425,308
--	232	511,137	586,609
--	--	75,759	75,655
557,662	129,810	3,284,109	2,805,905
483,208	--	549,641	556,201
236,922	44,792	1,824,413	1,742,965
--	--	27,465	37,327
--	5,630	66,892	71,041
--	140,438	1,190,187	1,172,118
--	--	109,410	109,514
--	--	32,583	16,915
--	--	144,027	124,328
--	6,308	1,432,000	956,945
--	--	667,413	702,296
95,079	18,451	577,429	469,650
--	9,432	293,532	403,740
--	377	121,921	--
977,548	19,657	1,063,410	1,005,338
209,955	--	210,762	239,085
139,446	--	139,446	151,000
108,398	37,441	774,917	786,738
--	13,673	463,963	507,532
--	33,453	534,169	603,601
63,738	790	325,948	340,145
6,232	--	126,436	121,576
--	29,988	839,007	843,875
--	2,196	614,711	555,764
2,320,526	362,626	12,129,682	11,517,694

MYRTUE MEDICAL CENTER  
Schedule of Expenses - continued  
Year ended June 30,

	2014		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 460,024	\$ 120,079	\$ 78,813
<u>Physician Clinic Services</u>			
Harlan	2,221,209	479,362	651,482
Avoca	202,981	45,379	59,555
Elk Horn	194,027	50,849	39,610
Shelby	189,586	41,295	46,132
Earling	145,785	49,047	38,799
Total physician clinic services	2,953,588	665,932	835,578
<u>General Services</u>			
Dietary	454,324	140,940	300,934
Plant engineering	187,831	88,706	648,811
Housekeeping	199,217	108,958	87,468
Laundry and linen	29,232	13,401	112,651
Total general services	870,604	352,005	1,149,864
<u>Fiscal and Administrative</u>	1,182,698	477,914	820,118
<u>General Depreciation</u>	--	--	--
Total all departments	\$ 13,731,695	\$ 3,937,657	\$ 7,944,289

See Independent Auditor's Report.

<u>2014</u>			<u>2013</u>
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ --	\$ --	\$ 658,916	\$ 629,715
2,113,917	7,103	5,473,073	5,871,804
66,784	954	375,653	361,439
42,332	--	326,818	308,581
40,190	1,803	319,006	294,945
20,095	--	253,726	235,084
<u>2,283,318</u>	<u>9,860</u>	<u>6,748,276</u>	<u>7,071,853</u>
--	3,073	899,271	888,301
--	4,319	929,667	854,049
--	--	395,643	395,394
--	--	155,284	146,263
<u>--</u>	<u>7,392</u>	<u>2,379,865</u>	<u>2,284,007</u>
470,193	118,055	3,068,978	2,688,870
<u>--</u>	<u>1,602,634</u>	<u>1,602,634</u>	<u>1,239,957</u>
<u>\$ 5,655,862</u>	<u>\$ 2,347,992</u>	<u>\$ 33,617,495</u>	<u>\$ 31,829,595</u>

MYRTUE MEDICAL CENTER  
Comparative Statistics  
Year ended June 30,

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Acute Care:					
Admissions	797	748	732	912	968
Discharges	797	747	732	913	961
Patient days	2,513	2,399	2,458	2,777	2,929
Average length of stay	3.2	3.2	3.4	3.0	3.0
Average occupied beds	6.9	6.6	6.7	7.6	8.0
Swing Bed:					
Admissions	252	216	229	278	282
Discharges	247	218	229	277	284
Patient days	2,073	1,858	1,815	1,931	1,994
Combined Average Occupied Beds	12.6	11.6	11.7	12.9	13.5
Nursery Days	222	201	230	209	249
Outpatient Visits	32,810	30,788	32,610	32,344	32,336
Physician Clinic Visits	39,305	40,487	38,122	39,242	33,128

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS



# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Myrtue Medical Center  
Harlan, Iowa

We have audited the financial statements of Myrtue Medical Center as of and for the year ended June 30, 2014, and have issued our report thereon dated October 6, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Myrtue Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Myrtue Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees  
Myrtue Medical Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Myrtue Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Responses to Findings**

Myrtue Medical Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Medical Center's responses, we did not audit the Medical Center's responses and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gronewald, Bell, Kuhn + Co. P.C.*  
Atlantic, Iowa  
October 6, 2014

MYRTUE MEDICAL CENTER  
Schedule of Findings  
Year ended June 30, 2014

PART I - SIGNIFICANT DEFICIENCIES

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Medical Center. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Medical Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Medical Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: Medical Center expenditures during the year ended June 30, 2014 did not exceed amounts budgeted therefore.

14-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Veteran's Memorial Auditorium and Main Street Market	Employee recognition dinner	\$ 7,994

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

14-II-C Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

14-II-D Business Transactions: During our audit, we noted no business transactions with Medical Center employees or officials.

MYRTUE MEDICAL CENTER  
Schedule of Findings  
Year ended June 30, 2014

PART II - REQUIRED STATUTORY REPORTING - Continued

14-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

14-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Medical Center's investment policy.

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